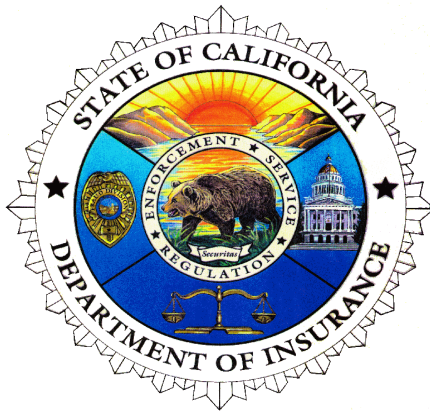


**PUBLIC REPORT OF EXAMINATION OF THE  
RATING AND UNDERWRITING PRACTICES OF THE**

**JOHN HANCOCK GROUP  
(NAIC GROUP #0356)**

**AS OF JUNE 22, 2000**

**STATE OF CALIFORNIA**



**DEPARTMENT OF INSURANCE**

**FIELD RATING AND UNDERWRITING BUREAU**

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**DEPARTMENT OF INSURANCE**

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June 18, 2002

The Honorable Harry W. Low  
Insurance Commissioner  
State of California  
45 Fremont Street  
San Francisco, California 94105

Honorable Commissioner:

Pursuant to instructions, and under the authority granted under Sections 730 and 790.04 of the California Insurance Code, an examination was made of the rating and underwriting practices and procedures in California of the John Hancock Group (NAIC Group # 0356) comprised in California of:

JOHN HANCOCK LIFE INSURANCE COMPANY (NAIC #65099, CDI #0715-3)

JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY (NAIC #90204, CDI #2466-1)

and

INVESTORS PARTNER LIFE INSURANCE COMPANY (NAIC #93610, CDI #2875-3)

hereinafter referred to as JHL, JHV, and IPL, individually, or collectively as John Hancock or the Companies.

As of February 2000, John Hancock Mutual Life Insurance Company (JHM) changed its name to John Hancock Life Insurance Company (JHL). The policy review consisted of policies issued, and the corresponding guidelines used, under the name of JHM. For the purpose of this report, the JHL name will be used. Investors Partner Life Insurance Company is licensed in the State of California but wrote minimal business in 1999. Therefore, only a very limited review of this company was conducted, and no policies were reviewed.

This report is made available for public inspection and is published on the California Department of Insurance internet web-site ([www.insurance.ca.gov](http://www.insurance.ca.gov)) pursuant to California Insurance Code Section 12938.

## **SCOPE OF THE EXAMINATION**

The examination covered the rating and underwriting practices of the John Hancock Group during the period from January 1, 1999 to June 22, 2000. The exam was made to discover, in general, if the operating procedures of the Companies conform to the provisions of the California Insurance Code (CIC) and the California Code of Regulations (CCR). This report contains only alleged potential violations of CIC Section 790.03 and its implementing regulations.

To accomplish the foregoing, the examination included:

1. A review of the rates, rating plans, forms, and underwriting rules made or adopted by the Companies for use in California, including a review of records of data, statistics, or information maintained by the Companies in support of or relating to such rates, plans, forms, and rules.
2. A review of the application of such rates, plans, forms, and rules by means of an examination of policy files and related records.
3. A review of consumer complaints received by the California Department of Insurance in the most recent year prior to the start of the examination.

The examination was conducted at the Department's Los Angeles, California office.

This report is written in a "report by exception" format. This report does not present a comprehensive overview of the subject insurer's practices. The report contains only a summary of pertinent information about the class of business examined and details of the non-compliant or problematic activities or results that were discovered during the course of the examination along with the insurer's proposals for correcting the deficiencies. In the event that a non-compliant activity was not discovered during the examination, the insurer remains responsible for correcting that practice. Failure to identify, comment on or criticize activities does not constitute acceptance of such activities.

The alleged violations identified in this report and any criticisms of practices have not undergone a formal administrative or judicial process.

## **METHOD OF DOING BUSINESS**

The John Hancock Group offers a broad array of insurance and investment products and services. John Hancock contracts with certain General Agents, who in turn contract with agents and brokers to sell John Hancock products. Below is a description of the life insurance products offered and method of product distribution for each of John Hancock Group's life insurance companies.

### **John Hancock Life Insurance Company (JHL)**

JHL sells Term Life, Universal Life, and Whole Life products. JHL's life products are distributed through career agency systems, Signator Financial Network, independent agents, and banks.

### **John Hancock Variable Life Insurance Company (JHV)**

JHV was created as a subsidiary of JHL in 1979. JHV sells Term Life, Universal Life, Variable Life and Whole Life. JHV's life products are distributed through career agency systems, Signator Financial Network, M Financial Group, independent agents, banks, and directly to consumers. The direct method of distribution includes the Internet, mail, telephone and career agencies.

### **Investors Partner Life Insurance Company (IPL)**

IPL markets its products through independent agents. IPL first offered life products in the fourth quarter of 1998. The 1999 premiums generated in California were only \$76,782.

### **ADVERTISING MATERIALS**

The examination included a review of the Companies' advertising and marketing materials, including a review of the insurer's internet site at [www.jhancock.com](http://www.jhancock.com) . This site provides background information about the Companies, and provides information regarding the products and services offered. This review resulted in no criticisms.

### **AUTHORIZED CLASSES OF BUSINESS**

The Companies are authorized to transact the following classes of business in California:

	<u>Class of Insurance</u>	<u>JHL</u>	<u>JHV</u>	<u>IPL</u>
1.	Life	X	X	X
6.	Disability	X	X	X
19.6	Legal Insurance	X		

## **PREMIUMS/ANNUITY AND CLAIM PAID INFORMATION**

The following table shows John Hancock's California premium, annuity, and claims/benefits experience for calendar year 1999 based on data from page 21 of the Annual Statements filed with the California Department of Insurance. The Paid Ratio listed below is calculated by dividing the claims and/or benefits paid total by the direct premiums and annuities total. This figure is intended to be a simple comparison between the amount of premium and annuity funds collected and the amount of benefits paid out in a single calendar year. It does not illustrate the fact that life insurance policy and annuity holders generally pay premiums for multiple years prior to any claim or benefit payment being made by the insurer. The Paid Ratio figure is not intended to measure the financial condition of the insurer in any manner. (All ratios are capped at 999%.)

### **JOHN HANCOCK GROUP, CONSOLIDATED** **Premiums/Annuity and Claim Paid Experience for Calendar Year 1999**

<b>Description</b>	<b>Premiums and Annuities (1)</b>	<b>Description</b>	<b>Claims/ Benefits Paid (2)</b>	<b>Paid Ratio % (2)/(1)</b>
Life Insurance		Death benefits		
Ordinary	\$222,653,033	Ordinary	\$34,819,163	
Group	25,876,462	Group	20,808,706	
Annuity Considerations		Annuity Benefits		
Ordinary	5,146,057	Ordinary	14,406,980	
Group	62,004,111	Group	79,427,948	
Deposit-type Funds		Surrender Values		
Ordinary	(34,329,357)	Ordinary	170,485,912	
Group	44,610,051	Group	1,910,755	
		Matured Endowments		
		Ordinary	1,099,199	
		Group	0	
		All Other		
		Ordinary	92,099	
		Group	39,674	
<b>TOTAL:</b>	<b>\$325,960,357</b>	<b>TOTAL:</b>	<b>\$323,090,436</b>	<b>99%</b>



**JOHN HANCOCK LIFE INSURANCE COMPANY**  
Premiums/Annuity and Claim Paid Experience for Calendar Year 1999

<b>Description</b>	<b>Premiums and Annuities (1)</b>	<b>Description</b>	<b>Claims/ Benefits Paid (2)</b>	<b>Paid Ratio % (2)/(1)</b>
Life Insurance Ordinary Group	\$85,582,025 25,876,462	Death benefits Ordinary Group	\$19,202,141 20,808,706	
Annuity Considerations Ordinary Group	5,146,057 62,004,111	Annuity Benefits Ordinary Group	14,168,326 79,427,948	
Deposit-type Funds Ordinary Group	(64,945,367) 44,610,051	Surrender Values Ordinary Group	136,517,492 1,910,755	
		Matured Endowments Ordinary Group	1,099,199 0	
		All Other Ordinary Group	406 39,674	
<b>TOTAL:</b> \$158,273,339		<b>TOTAL:</b> \$273,174,647		173%

**JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY**  
Premiums/Annuity and Claim Paid Experience for Calendar Year 1999

<b>Description</b>	<b>Premiums and Annuities (1)</b>	<b>Description</b>	<b>Claims/ Benefits Paid (2)</b>	<b>Paid Ratio % (2)/(1)</b>
Life Insurance Ordinary Group	\$136,994,226 0	Death benefits Ordinary Group	\$11,510,357 0	
Annuity Considerations Ordinary Group	0 0	Annuity Benefits Ordinary Group	238,654 0	
Deposit-type Funds Ordinary Group	30,616,010 0	Surrender Values Ordinary Group	31,341,367 0	
		All Other Ordinary Group	91,693 0	
<b>TOTAL:</b> \$167,610,236		<b>TOTAL:</b> \$43,182,071		26%

INVESTORS PARTNER LIFE INSURANCE COMPANY  
Premiums/Annuity and Claim Paid Experience for Calendar Year 1999

<b>Description</b>	<b>Premiums and Annuities (1)</b>	<b>Description</b>	<b>Claims/ Benefits Paid (2)</b>	<b>Paid Ratio % (2)/(1)</b>
Life Insurance Ordinary Group	\$76,782 0	Death benefits Ordinary Group	\$4,106,665 0	
Annuity Considerations Ordinary Group	0 0	Annuity Benefits Ordinary Group	0 0	
Deposit-type Funds Ordinary Group	0 0	Surrender Values Ordinary Group	2,627,053 0	
		All Other Ordinary Group	0 0	
<b>TOTAL:</b>	\$76,782	<b>TOTAL:</b>	\$6,733,718	999%

## **LINE OF BUSINESS REVIEWED**

The John Hancock Group examination included a review of the following line of business:

### **LIFE INSURANCE**

The examination focused on individual life insurance policies (term life, whole life and variable universal life) issued by the Companies.

- Individual Term Life Policies are products that are both renewable and convertible, depending on the length of the term selected (10, 15, 20, 25 or 30 years). Level Premium Term policies provide level premiums for the term of the years selected and then increase annually thereafter. Coverage remains level throughout the lifetime of the policy. Level Term policies are particularly attractive to clients seeking larger amounts of life insurance with premium guarantees. Yearly Renewable Term policies are particularly attractive to clients with short-range conversion plans or those who want the strongest guarantees against deteriorating health that an attained-age product provides. Both types of term policies are convertible to a permanent life policy at the time of conversion to age 65 or the age corresponding to the fifth policy year, if later. A permanent life policy would be a whole life, universal, variable or survivorship life policy.
- Individual Whole Life Policies are permanent policies designed to provide low level, consistent and competitive premiums with a high death benefit. Premiums are payable until age 100.
- Individual Variable Life Policies offer flexible premiums and flexible death benefit options. Variable life policies offer the insured several investment options (for the premium paid). Depending on the product, the death benefit is guaranteed (FlexV) or it varies (Medallion), based on the performance of the investment options chosen by the insured.
- Individual Universal Life Policies are permanent policies that provide an unusually lengthy death benefit guarantee period and a source of supplemental retirement income, that is well-suited for both estate planning and business protection markets.
- Individual Survivorship Life Policies are designed to provide estate protection for either individuals with substantial estate settlement needs or people who own small or family businesses. A unique feature offered by survivorship policies is second-to-die coverage, which insures two individuals in one policy and pays a death benefit at the death of the second individual. Due to the fact that the Companies' individual survivorship life and individual estate protection life premiums are minimal in comparison to the other individual life premiums, no term survivorship or estate protection policies were reviewed during this examination.

## **POLICY SAMPLE REVIEWED AND OVERVIEW OF FINDINGS**

The examiner reviewed 19 in-force individual life insurance, eight declined policies, and six contracts not taken by the applicant. In the course of the examination, and within the scope of this report, the examiner identified no premium errors, no non-premium errors, and no declined or contracts not taken policy errors attributable to CIC Section 790.03 and its implementing regulations. The examination alleged three potential violations of CIC Section 790.03 based on the insurer's general practices.

### **POLICY REVIEW RESULTS**

A representative sample of the policies issued by the John Hancock Group was reviewed to determine if the Companies were properly and consistently applying their adopted rates, rating plans and underwriting rules. The policies were selected at random from the Companies' listing of policies issued and declined, and contracts not taken during the period of July 1, 1999 through September 30, 1999. The results of this review are listed below on the In-Force Policies table and the Declined Policies and Contracts Not Taken table. Only errors attributable to alleged potential violations of CIC Section 790.03 or its implementing regulations are included in these tables.

The In-Force Policies table summarizes the number of policies reviewed, the number of policies with premium errors, and the number of policies with non-premium errors by program and company resulting from this examination. In general, policies containing errors that result in premium overcharges are corrected by policy endorsement, and refunds are made to the insured. Policies with errors that result in undercharges are marked for corrective action at the next policy anniversary date. Non-premium errors include documentation, forms and other errors not affecting premium. Errors that result in premium differences under \$5 or 1% of the policy premium, whichever is greater, are counted as non-premium errors.

The Declined Policies and Contracts Not Taken table shows the number of termination transactions reviewed per line of business. The Companies did not have any lapsed, surrendered, or rescinded policies during the period of the examination. The number of policies with errors noted in this review is shown.

### POLICY REVIEW RESULT SUMMARY

#### John Hancock Group

##### In-Force Policies

Life Insurance Product	Company	No. of Policies Reviewed	No. of Premium Errors	No. of Non-Premium Errors
Term Life	JHV	10	0	0
	JHL	3	0	0
Whole Life	JHV	2	0	0
	JHL	0	0	0
Variable Universal Life	JHV	3	0	0
	JHL	1	0	0
Totals		19	0	0

##### Declined and Contracts Not Taken

Company	Company Action	Number of Cases Reviewed	Number with Errors
JHV	Declined	6	0
	Contracts Not Taken	2	0
JHL	Declined	2	0
	Contracts Not Taken	4	0
Totals		14	0

## GENERAL PRACTICES REVIEW RESULTS

The examination included a review of the rates, rating plans, forms, and underwriting rules made or adopted by the Companies for use in California. The insurer's error trends and general practices are alleged to have created the potential for violation of CIC Section 790.03 and its implementing regulations.

A single citation in the following Violation Summary Table may be due to a general practice or error trend which affects many policyholders. One practice can also violate multiple laws or occur across multiple companies within an insurer group. The table indicates the provisions of the California Insurance Code or the California Code of Regulations, in relationship to CIC Section 790.03, for which violations were alleged during the exam. The table also displays the number of practices asserted to potentially be in violation of each provision. A description of these practices is provided in the final section of this report.

### CIC SECTION 790.03 VIOLATION SUMMARY TABLE

	Code Citation	Description of Law	No. of Practices		
			Company		
			JHL	JHV	IPL
1.	CIC § 790.03(f)	Making or permitting any unfair discrimination between individuals of the same class and equal expectation of life in the rates charged for any contract of life insurance is a prohibited act.	3	3	3

## **SUMMARY OF CRITICISMS, INSURER COMPLIANCE ACTIONS, AND TOTAL PREMIUM RETURNED TO CONSUMERS**

During the John Hancock Group examination, three general practices were alleged to create the potential for violation of California Insurance Code Section 790.03 or its implementing regulations. These practices are summarized below, as is the Companies' response to each criticism. Regardless of the resolutions or actions taken or proposed by the insurers in this report, it is the insurers' obligation to ensure that compliance is maintained continuously.

No premium was returned to consumers as a result of these findings.

1. The Companies' guidelines and mortality rating charts for classification of risks as Standard or Substandard classes had gaps in the age and mortality rating parameters and are inconsistent with one another. The Companies' mortality rating chart did not include all the possible mortality ratings for the corresponding ages. Failure to have guidelines that are clear, complete and consistent with one another has the potential of resulting in similar risks being treated differently. This issue pertains to all three companies.  
CIC Section 790.03(f)

Resolution: The Companies have revised their guidelines and mortality charts in an effort to eliminate the perceived inconsistency. New charts will replace the charts that are currently on the application jacket in which each underwriting file is maintained. The application will be revised at the next reprint, which was done by April 2002.

2. The Companies had inconsistent guidelines and procedures pertaining to the requirements and procedures used for obtaining motor vehicle reports (MVR's) and blood/urine tests. This can allow for the dissimilar treatment of similar risks. This issue pertains to all three companies.  
CIC Section 790.03(f)

Resolution: The Companies revised their "Age/Amount" charts on November 15, 2000, to accurately reflect their requirements for obtaining MVR's and blood/urine tests. The Companies revised their guidelines so that they are consistent with the revised charts. This was done on June 1, 2001.

3. The Companies' numerous underwriting guidelines, including those on the producers' websites, are inconsistent with one another and contain outdated information. The inconsistencies in the guidelines create the potential for dissimilar treatment of similar risks. This issue pertains to all three companies.  
CIC Section 790.03(f)

Resolution: The Companies indicated that their underwriting guidelines, including the websites, were revised so that they are updated, clear, complete and consistent with one another. This was done on June 1, 2001.